

# THE COALITION FOR 21ST CENTURY PATENT REFORM

*Protecting Innovation to Enhance American Competitiveness*

[www.patentsmatter.com](http://www.patentsmatter.com)

## **FOCUS TRANSPARENCY PROPOSALS ON PATENT ASSERTION ACTIVITIES**

Several proposals have recently surfaced to address an alleged “lack of transparency” regarding information about the ownership of patents. It is said that the information available from the records of the United States Patent and Trademark Office (USPTO) is insufficient to allow persons who receive letters demanding payment for infringing a patent (“Demand Recipients”) to knowingly respond. This has led to several proposals to require all or certain patent applicants and patentees to periodically report and update ownership information throughout the life of their patent applications and patents.

H.R. 2024, the “End Anonymous Patents Act,” introduced by Congressman Deutch on May 16, 2013 would require all entities to which a patent has been issued to periodically report: (a) the identities of owner of the patent and any real party in interest (including any entity that has the legal right to enforce the patent through an infringement action); (b) any ultimate parent entity of an entity having the legal right to enforce the patent; and, (c) any entity that has a controlling interest in the enforcement of the patent (including an ultimate parent entity not otherwise identified). These reports would be required: (a) upon the issuance of a patent; (b) upon the payment of each of the three maintenance fees required to keep the patent in force; and, (c) within 90 days after any application for patent, patent, or any interest therein, is sold, granted, or conveyed. A patent owner fail to comply with these requirements would be prohibited from being able to collect damages for all infringements taking place prior to the date on which all requirements are met.

A “Discussion Draft” published by Chairman Goodlatte on May 23, 2013, would require persons sending 20 or more letters to unaffiliated third parties, stating or indicating that the recipient is infringing a patent or may owe compensation, to provide certain information to the USPTO. In the event of non-compliance, sanctions would be available to compensate the recipients of such letters for their incremental costs and the entity sending such demand letters would not be awarded enhanced damages for patent infringement, or attorneys’ fees, unless the denial thereof would be manifestly unjust. The Draft would also require a patentee filing a patent infringement action to disclose to the USPTO, the court, and each adverse party, the names of persons and entities known to have a financial interest in the patent or in a party during the six years prior to the filing of the action.

The White House Task Force on High-Tech Patent Issues issued a report on June 4, 2013, containing five executive actions and seven legislative recommendations designed to protect innovators from frivolous litigation. One legislative proposal would require any party sending demand letters, filing an infringement suit or seeking USPTO review of a patent, to file updated ownership information, and enabling the USPTO or district courts to impose sanctions for non-compliance. On the administrative front, the USPTO will begin a rulemaking process to require patent applicants and owners to regularly update ownership information when they are involved in proceedings before the USPTO, specifically

designating the “ultimate parent entity” in control of the patent or application. No details on either of these proposals were given.

The Coalition for 21<sup>st</sup> Century Patent Reform (21C) has not found the lack of availability of patent ownership information to be a problem meriting legislative attention, much less one that would warrant the burdensome disclosure requirements some have proposed (see “H.R. 2024 Misses the Target While Threatening Innocent Patent Owners,” available at <http://www.patentsmatter.com/issue/113Congress.php>). Nonetheless, if Congress elects to require disclosure of patent ownership information, the 21C believes that the approach taken in proposed new §263 in Section 4 of the Discussion Draft which targets those Patent Assertion Entities (PAEs) that send large numbers of demand letters to small, unsophisticated companies is the correct approach. These PAEs (referred to as “patent trolls” by the White House Task Force) use the business model of sending hundreds or thousands of demand letters to coerce settlements from the recipients who generally lack the resources to contest the assertions of patent infringement.

By focusing on this small subset of PAEs that use such a business model and providing a reasonable incentive for them to disclose the relevant ownership and control information, much of the concern caused by such practices could be mitigated if not eliminated. Therefore, the 21C agrees with focusing any reporting requirement on those entities that send large numbers of demand letters.

While we generally support the approach taken in proposed §263, we believe that it should be amended to specifically target mass demand conduct without ensnaring routine licensing activity. Because of inherent nature of its business model, any successful mass demand scheme will almost always involve sending many hundreds, and most likely thousands, of demand letters within a one year period. On the other hand, patent owners engaged in legitimate efforts to find licensees for their inventions and/or who are seeking development partners or financial backers, may well end up sending 20 or more letters over the course of a year. Thus setting a limit of only 20 demand letters could result in imposing sanctions on the legitimate efforts of universities, independent inventors, small and medium sized businesses, and others engaged in routine licensing activities. The 21C would therefore recommend that the demand letter trigger of proposed §263 be raised to require that at least 100 demand letters be sent to at least 100 different entities.

The 21C looks forward to working with Congress to resolve this issue and the other matters under consideration.

The Coalition has approximately 50 members from 18 diverse industry sectors and includes many of the nation’s leading manufacturers and researchers.

The coalition’s steering committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble.

Visit <http://www.patentsmatter.com> for more information.